AN EMPIRICAL STUDY ON FIT BETWEEN STRATEGIC HUMAN RESOURCE MANAGEMENT AND BUSINESS STRATEGY

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ABSTRACT

1960s, with the published works of Chandler and Ansoff, strategic research started; 1980s, study about Strategic Human Resource Management (SHRM) is of the rise of the best human resource perspective, contingent perspective and configuration perspective. There are two views about the relationship between Strategic Human Resources and business strategy: the contingency scholars think, human resources strategy is determined by the organizational strategy, organizational strategy and human resource strategy is a one-way relation; and Resource-based view that organizational strategy and human resources strategy is a two-way influence relationship. Based on the contingency scholars, this paper explores the path that the strategic human resources support business strategy, not only to focus on internal and external matching, but also pay attention to the specific content of match.

Keywords: Business strategy, organizational strategy, strategic human resource management,vertical fit, horizontal fit.

1. INTRODUCTION

The word *strategy* comes from the Greek word 'Strategus', meaning 'Supreme Commander'. The introduction of the concept of strategic management generally refers to the implementation to achieve the organization's activities in management. In 1960s, Chandler in his book "Strategy and Structure" (Chandler, 1962) and Ansoff in his book "Corporate Strategy" (Ansoff, 1965) opened a strategic research. Subsequently, many researchers conducted a study on the strategy. In 1980s, Strategic Human Resource Management (SHRM) began the emergence of the strategic and human resource management. Ulrich and Lake (1991) described SHRM as "human resource practices and corporate strategy process linked", Truss and Gratton (1994) defined SHRM as the combination of the human resources function, strategic goals and objectives of the organization. Base on contingency perspective, this study further study the path of strategic human resource support the business strategy, and pointed out the inadequacies of the study and future research directions.

2. AN OVERVIEW OF BUSINESS STRATEGY

In the book "Strategy and Structure", Chandler described the strategy as "a corporate decision-making about long-term goals, as well as the action taken by the organization to achieve these goals", and analyze the relationship among the environment, strategy and organizational structure. Hofer and Sohendel (1978) think that the strategy is a series of

action and resource allocation decision-making and implementation process to achieve a certain organizational objective. Mintzberg(1978) considered that the strategy is the policy thatorganization respond to environment. To the organization,there are different levels of strategy.

2.1. Strategic level

According to different standards, strategies can be dividedinto different categories. This isdivided into three levels: Corporate Strategy, Business Strategy, and Functional Strategy. It is generally accepted levels of strategy, Hofer andSohondel (1978), Corporate strategy Answered themainly what the business is; business strategy answers how tocompete in the "product-market" enterprise selected; functionalstrategies main answer how to maximize resource for each subfunction.The three levels of strategy and its impact on theenterprise matching common goals. The relationship amongthem in the organization is show in the figure below.

2.2. An Overview of Business Strategy

The concept of business strategy- Business Strategy, also known as competitive strategies, isan important part of organizational strategy. Venkatratnam (1985)concluded that the business strategy is a general model, whichis composed of various means used by an enterprise to achievebusiness goals.

The type of business strategy- The representative study about the type of business strategyis Porter (1980), Miles and Snow (1978).Porter (1980) identified three basic competitive strategies:Overall Cost Leadership Strategy, Differentiation Strategy andFocus Strategy. Overall cost leadership strategy, also known aslow-cost strategy is the adoption of a series of specific policies for this strategy to win the total cost in the industry.Differentiation strategy is to provide products and services tocreate something new, the formation in the whole industry isunique. Focus Strategy is composed of a series of action, likegathering a specific customer base, a product line, a segment ofthe market. The premises of this strategy are: the company canbe more efficient, better results for a narrow strategic targetservices to compete with a wider range of competitors.

3. AN OVERVIEW OF SHRM AND ITS RELATIONSHIP WITH THE BUSINESS STRATEGY

3.1. An Overview of Strategic Human Resources

1980s, after the presentation of the concept of SHRM, manyscholars have defined it. Milkovich and Boudreau (1997) thinkhuman resource strategy is a based method that theorganizations manage staff to meet business objectives. Beerand Spector believe that a business enterprise has an externalstrategy, a chosen way of competing in the marketplace. It alsoneeds an internal strategy: a strategy for how its internalresources are to be developed, deployed, motivated, andcontrolled…external and internal strategies must be linked;Wright and McMahan's (1992) definition is the most widelyspread, they think "strategic human resources is the pattern ofplanned human resource deployments and activities intended tohelp an organization to achieve its goals". In this paper, weadopt Wright and McMahan's definition.
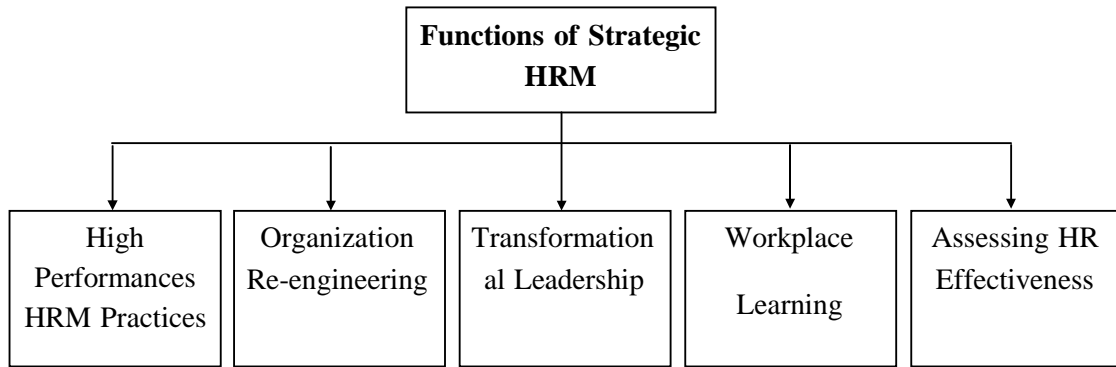
Fig. 1: Functions of Strategic Human Resource Management

3.2. The relationship between SHRM and business strategy

Academic researches focus the relationship betweenStrategic human resource management and business strategysince its birth. The contingency scholars think, human resourcesstrategy is determined by the organizational strategy,organizational strategy and human resource strategy is a onewayrelation; and Resource-based view that organizationalstrategy and human resources strategy is a two-way influencerelationship.

To study and master the relationship between humanresources strategy and corporate strategy, so the two match, youcan enhance the strength of enterprises, access to sustainable competitive advantage. The contingency scholars believe thatSHR derives from business strategy, business strategydetermine how much companies need to put forward thenumber of employees, skills, abilities, etc., so requiring humanresources strategy must support the business strategic.After comprehensive consideration of the externalenvironment and organizational environment, the topmanagement confirms business strategy. Meanwhile, humanresource objectives will be laid down, and then determine thehuman resources strategy. Finally, through human resourcemanagement system, strategies are implemented to help anorganization to achieve its goals.
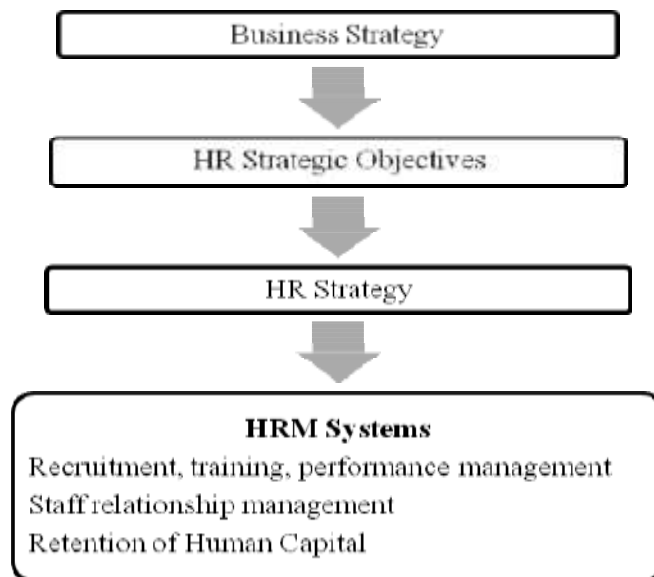
Fig. 2: SHRM and the relationship between business strategies

4. STUDY ON THE PATH SHRM SUPPORTS BUSINESS STRATEGY

Business strategy determines SHRM, business strategydetermine how much companies need to put forward thenumber of employees, skills, abilities, etc., requiring humanresources strategy must support the business strategies. Thispaper argues, SHRM's support of business strategy has threepaths, namely, by looking for the best human resourcespractices and pay efforts to implement; analyze businessstrategy and find out the Human Resource Policy Clusters; ormaintain the internal matching, and matching with the externalbusiness strategy.

4.1. The path of best practice perspective

There is a considerable academic debate about humanresource management to help companies build competitiveadvantage. Some people think that there is a universal humanresource management model, this particular model can be addedone by one to help improve the performance of any business,and this is the so-called high performance of human resourcesmanagement (HPWS) (Pfeffer, 1994)Western scholars believe that the best human resourcepractices are used in enterprises of differentbackgrounds, have universal validity. Pfeffer (1996) considerthat employees are important assets that should be invested todevelop the skills, so Pfeffer proposed 16 Human Resourcepractices: employment security, recruitment selection, highwages, incentive pay, employee ownership, information sharing,participation and empowerment, teams and job redesign,training and skills development, job rotation and cross training,reduce the wage differential, internal promotion, long-termperspective, the measurement of practice, cross-cuttingphilosophy. Later, have integrated a number of studies, Pfeffer(1998) reduce the 16 items grouped into seven, as shown below,and pointed out that it is almost universal for the seven practicesto improve organizational performance. Along Huselid,Delery (1996) identified seven best practices: internal careeropportunities, formal training, systems evaluation, benefitsharing, employment security, complaint mechanisms andworking definitions. Delery and Doty (1996) did an empirical study on varioushuman resources activities with organizational performance,found that performance evaluation and results-orientedactivities such as profit sharing and organizational performance,there is a significant positive correlation.

Table 1: Pfeffer seven best practices of HR

Items	Contents
Employment security	Job stability, no worries
Recruitment, selection	Select the people who have theoriginal character, rather than training others; who have a good attitude and excellent skills, and match culture; middle managers need to participate
Self-management teams and decentralization of decision-making	Work at all levels should haveclear objectives and tasks boundaries and maximize the autonomy of work
High performance based performance	Contingent rewards can motivate employees to work the same as the master
Training	To improve staff skills through rotation system, thereby greatly increasing the organization's flexibility and adaptability
Narrowing the gap between management level	Encourage employees to face thesituation, and cooperation to achieve the vision
Information sharing	Only get enough information teamcan make effective decisions

4.2. The path of the contingent perspective

Contingency view is that to any business strategy, there is abest HR Policy Cluster. The process of making human resourcemanagement needs to consider many contingent factors,including strategic, company size, ownership type, and so on.Different strategies require different human resourcemanagement model.In different stages of the life cycle Enterprises will take adifferent development strategy, which led to different humanresources management.Start-up stage, as a new market entrant a company facesgreat pressure to survive. The company was mainly depends ontalents. In order to attract talent, mostly organizations pay more attention to recruitment and job security at start-up stage. Whenthe enterprises enter the fast-growing stage of development, thebusiness volume grew just as fast. So recruitment is still thestandardized operation of the stage requests, and job design,training and performance assessment as a means of control suchpractices. Into the mature stage, the companies began andushered in sustained profitability and are steady in developmentof the brilliant period. At this point, to achieve the optimalallocation of human resources, training and performanceappraisal is important practices. Meanwhile, the training alsohelps increase organizational flexibility. All in all, change mustbe based on specific needs to adapt to changing businessdevelopment strategies, in order to strengthen the enterprises inthe fierce market competition.Competing on having the best customer service or quality isanother form of differentiation. Here the HR policies aredesigned to promote and reward extraordinary quality.Teamwork and quality successes that surpass customer needsare likely to be highly rewarded. Suggestion systems are highlyvalued.In short, the path from the contingent perspective can befollowed by analyzing which cycle are the companies are, andselect the most appropriate human resource practices to fit theorganization, to achieve optimal performance.

4.3. The path of configuration perspective

From the perspective of configuration, when HR policyclusters are designed to support HR strategies in a way that iscongruent with the overarching business strategy, they have*Vertical Fit*. When they are aligned with each other to createpowerful connections, there is *Horizontal Fit*.Fit perspective is different from the universal andcontingency theory, it is concerned about how the number ofindependent variables associated with a dependent variable,rather than how each of the independent variables associatedwith the dependent variable. Strategic fit, including verticaland horizontal fit, vertical fit is also known as "vertical match",horizontal fit, also known as" horizontal match";*Vertical Fit - Human Resources Management System andthe matching strategy.*Vertical Fit refers to the polymerization that organizationalhuman resource practices and some other features such asorganizational strategy. Match the vertical emphasis the role inhuman resources management in achieving strategic businessobjectives. On the one hand, the time to develop organizationalstrategy must take into account the characteristics oforganizational human resource system; on the other hand,organization strategy should be put into organization fully.Schuler and Jackson demonstrate the use of behavior theoryin this view that it is very necessary for human resourcemanagement system to achieve organizational processes withthe longitudinal vertical matching; namely, human resourcemanagement system must integrate with other resources

toorganizations.U.S. management scholars Lewn& Mitchell pointed outthose organizations have human resources strategy matchwith business strategy, increase with the organizationaladvantage and helping companies to achieve their strategic goals.

Wright and McMahan said, in order to achieveorganizational goals, organizations must develop a humanresources systems match to achieve vertical and horizontalmatching. He stressed that the two fit, namely, the fit betweenhuman resource management and corporate strategy and humanresource management activities fit within the relationship. Fitperspective advocated by the vertical and horizontal matches isgenerally regarded as the important principles to achieveorganizational goals.Scholars alsostressed that the two fit, in their view, the vertical matching isthe core, is the basis of the matching levels, which is guidedin the enterprise development strategies. Strategic configuration theory shows that the higher level ofthe fit between the various parts within the organization, thehigher the efficiency of organizational behavior. Therefore, toenterprises, the most central issue is not to identify what thebest human resource practices is, but to find the Best MatchOffice that external environment, the overall strategy andhuman resource management system within the system. Thestudy of the two fit within human resource are interrelated.External fit is the basis of internal alignment; external fit isinfluenced by internal fit. Internal and external fit determine theefficiency of organization together.
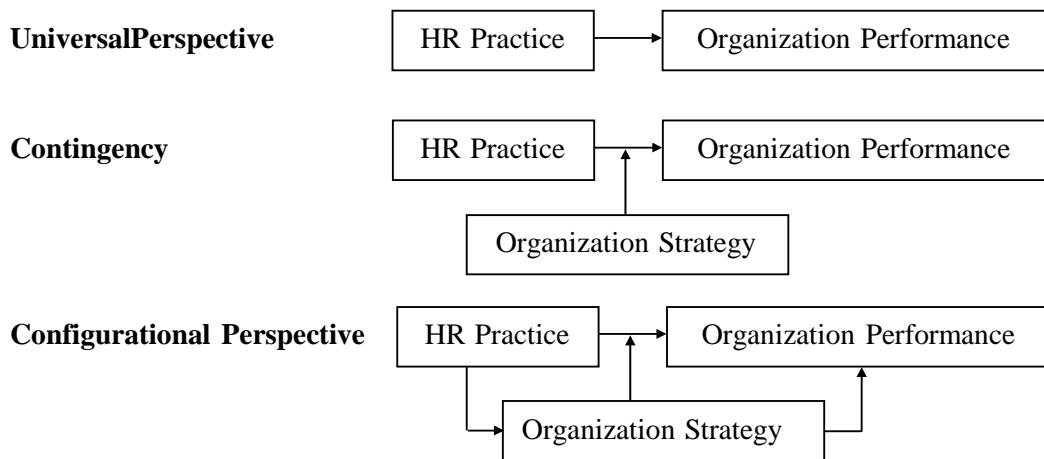
UniversalPerspective — HR Practice → Organization Performance

Contingency — HR Practice → Organization Performance ← Organization Strategy

Configurational Perspective — HR Practice → Organization Performance, Organization Strategy

Fig. 3: Different perspectives of HR support organizational performance

5. CONCLUSION

This study discusses how SHRM support business strategyfrom three perspectives, each provides a different perspectiveand a chance to look at research in-depth. Three perspectivesare not completely isolated. Best practices reflects the conceptof "horizontal matching" or "internal match", but stressed thecontent rather than form; Contingency reflects the concept of"vertical match" or "external match", but stressed the contentrather than form; with the emergence of Configuration view, itemphasis the importance of form on "Vertical Match" and"Horizontal matching ", both are in important positions. On thewhole, strategic human resources not only focus on "VerticalMatch" and "Horizontal matching ", and stressed

the need tocarefully consider the contents of match. The two promote eachother, each one is indispensable.

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